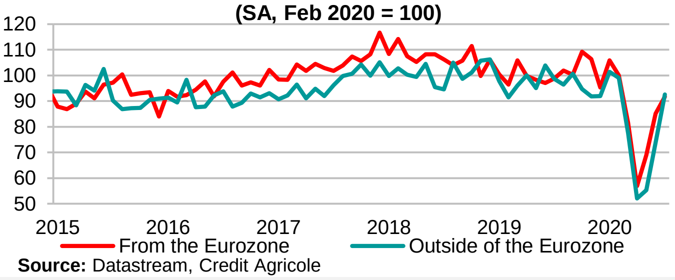
Another deterioration of consumer sentiment is in front of us

This week

- **The publication of the Minutes of the FOMC meeting is scheduled for Wednesday.** Most important will be the parts concerning the new strategy of inflation target, namely the average inflation targeting (AIT). Of particular importance will be the information about the scale of possible overshooting of the target to be tolerated by FED. We believe that the document will not bring any new information significantly changing the outlook for the US monetary policy. We maintain our scenario, in which interest rates in the US will stay at the current level for an extended period of time. In our view, the publication of the Minutes will not be market moving.
- **The Wednesday's meeting of the Monetary Policy Council will not bring any significant changes in the monetary policy, we believe.** The reference rate will be left at the current level (0.10%). The statement will again point out that the scale of the expected recovery may be limited by uncertainty about further course and consequences of the pandemic, lower income growth, and weaker-from-previous-years sentiment of economic entities. The Council is likely to raise the issue of high volatility of PLN in recent weeks. We believe that the tone of the statement after the meeting will be neutral for PLN and bond yields.
- **This week we will see some significant data from the US.** The non-manufacturing ISM will be released today and, in accordance with our forecast, will decrease to 56.5 pts in September vs. 56.9 pts in July. The slight deterioration of sentiment will be consistent with the decrease recorded earlier in the September PMI for services. On Thursday we will see the number of unemployment benefit claims. According to the consensus it will amount to 823k vs. 837k last week, confirming a downward trend for this indicator. We believe that the aggregate impact of data from the US economy on the financial markets will be limited.
- **On Tuesday we will see data on new orders in German manufacturing.** According to the consensus, they increased by 2.5% MoM in August vs. a 2.8% increase in July. Especially important will be the data on new export orders broken down to the Eurozone and other countries. The latter are a good barometer of trends in global trade. Possible recovery in this respect will be important from the point of view of the restoration of the supply chains and the assessment of demand from Germany's major trade partners (i.a. China)

New foreign orders in German manufacturing (SA, Feb 2020 = 100)



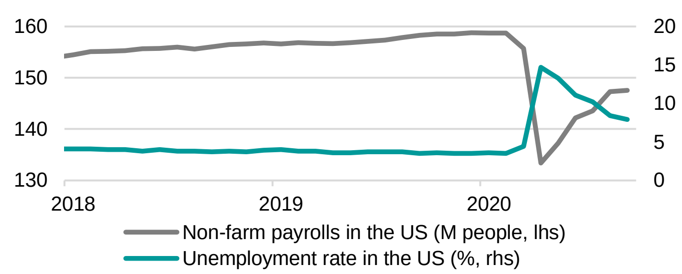
Source: Datastream, Credit Agricole

Last week

- **In accordance with the flash estimate, CPI inflation in Poland rose to 3.2% YoY in September vs. 2.9% in October, running above the market expectations equal to our forecast (3.0%)**. GUS published partial data on the inflation structure, including information on the rate of inflation in the categories "food and non-alcoholic beverages", "energy", and "fuels". Conducive to increase in inflation were higher dynamics of fuel prices (-9.2% YoY in September vs. -12.3% in August), energy prices (4.6% in September vs. 4.5% in August) and higher core inflation, which, according to our estimates, rose to 4.2% YoY vs. 4.0% in August. On the other hand, lower dynamics of the prices of food and non-alcoholic beverages (2.7% YoY in September vs. 3.0% in August) had opposite impact. We expect that headline inflation will stand around 3.0% YoY until November 2020. Then it will start to decrease due to high base effects. The last week's data do not alter our forecast in which inflation in 2020 will, on a yearly average, amount to 3.4% YoY and will decrease to 1.7% in 2021.

- **Polish manufacturing PMI rose to 50.8 pts in September vs. 50.6 pts in August**. Thus, the index has for the third consecutive month stood above the 50 pts threshold dividing expansion from contraction of activity. The index slight increase resulted from higher contributions of 3 of its 5 sub-indices (for employment, new orders, and inventories), while lower value of the sub-index for output and suppliers' delivery times had an opposite impact. Especially noteworthy in the data structure is a sharp increase recorded in September in the indicator of anticipated production in the horizon of 12 months which hit the highest level since May 2019. This means that, in spite of the flattening of industrial production in August (see MACROpulse of 18/9/2020) and the signalled by the September PMI data slight increase in the manufacturing output in September, the companies anticipate a further and significant increase of activity in the long term (see MACROpulse of 1/10/2020). The optimism declared by the surveyed companies about future production is in line with the expected by us profile of recovery whose shape will remind Nike logo (see MACROmap of 6/7/2020).

- **Significant data from the US economy were released last week.** In accordance with the third estimate, the annualized change in the US GDP amounted to -31.4% in Q2 vs. -31.7% in the second estimate. The slight upward revision resulted from higher contribution of private consumption (-24.01 pp in the third estimate vs. -24.76 pp in the second estimate) while lower contributions of net exports (0.62 pp vs. 0.90 pp), investments (-5.27 pp vs. -5.20 pp), government expenditures (0.77 pp vs. 0.82 pp), and inventories (-3.50 pp vs. -3.46 pp) had opposite impact. Thus, the data confirmed that the main source of the significant decrease in the US GDP was the collapse of private consumption. Last week we also saw the data on unemployment benefit claims which amounted to 837k vs. 873k two weeks ago, running below the market expectations (850k). Thus, despite a decline, they continue to be three times higher from the pre-pandemic level. Noteworthy is a relatively sharp decrease in the number of continued claims (from 12.7M to 11.8M) being the resultant of the number of new jobs and the number of job cuts, which despite the recorded decline stays at a level that is almost seven times higher from the pre-pandemic level. Last week we also saw data on non-farm payrolls which increased by 661k in September vs. a 1489k increase in August (revised upwards from 1371k), running below the market expectations (850k). It is worth noting that higher employment was recorded in 13 of the 14 segments. A decrease in employment was recorded only in the public sector (down by 216k), i.a. due to the expiration of the contracts of temporary workers employed for the needs of the population census and to job cuts in public education after some schools switched to online teaching. Unemployment rate dropped to 7.9% in September vs. 8.4% in August while the participation rate dropped to 61.4% in September vs. 61.7% in August. Lower participation rate shows that due to the difficult situation in the market some unemployed people stopped searching for jobs. September saw a slight increase in the dynamics of average hourly earnings to 4.7% YoY vs. 4.6% in August, due to a sharp decrease in employment in the public sector where relatively low earners prevailed among the dismissed employees. Thus, coupled with the data on the number of unemployment benefit claims, the September data on non-farm payrolls confirm that the situation in the US labour market is improving at a very slow rate and the market itself is far from the equilibrium level. The ISM index for manufacturing



Source: Datastream, Credit Agricole

decreased to 55.4 pts in September vs. 56.0 pts in August. The index decrease resulted from lower contributions of its sub-indices for output and new orders, while higher contributions of the sub-indices for inventories, employment and suppliers' delivery times had opposite impact. Especially noteworthy in the data structure is an increasingly high growth rate of new export orders, which, combined with the last week's data from China (see below), points to recovery in global trade. Last week we also saw the results of consumer sentiment surveys. The Conference Board Index rose to 101.8 pts in September vs. 86.3 pts, running significantly above the market expectations (89.5 pts). Nonetheless, it continues to be ca. 17 pts lower from the pre-pandemic level. The index increase resulted from higher sub-indices for both the assessment of the current situation and expectations. The improvement in consumer sentiment was also indicated by the final University of Michigan Index, which rose to 80.4 pts in September vs. 74.1 pts in August and 78.9 pts in preliminary estimate. As in the case of the Conference Board Index, its increase resulted from higher values of its sub-indices for the assessment of the current situation and expectations. The last week's data support our scenario, in which the US GDP will increase by 24.3% in Q3 (in annualized terms) vs. a 31.4% decline in Q2, and will increase by 3.7% in Q4 (we have revised our forecast downwards from 7.9% due to no agreement in the US as to the new fiscal stimulus package) and will decrease by 4.5% in the whole 2020. Further course of the COVID-19 pandemic in the US poses a risk to the sustainability of the recovery of economic growth in the US.

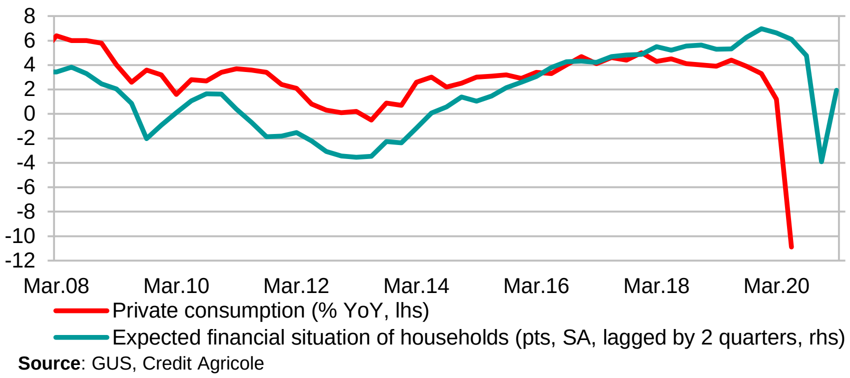
- **According to the flash estimate, inflation in the Eurozone dropped to -0.3% YoY in September vs. -0.2% in August, running above our forecast (-0.5%) and below the market consensus (-0.2%).** Conducive to the decrease in headline inflation were lower core inflation (0.2% YoY in September vs. 0.4% in August) and lower dynamics of energy prices (-8.2% vs. -7.8%), while higher dynamics of food prices (1.8% vs. 1.7%) had opposite impact. Headline inflation hit in September the lowest level since February 2015 and core inflation the lowest level on record. We maintain our forecast in which the Eurozone will be seeing deflation until the end of 2020. In our view, the main source of lower price dynamics in the Eurozone will be a decrease in core inflation resulting from disinflation tendencies amid the economic crisis within the single currency area. We expect core inflation to remain below the +0.5% YoY limit until the end of 2020. Consequently, we forecast that in the whole 2020, headline inflation in the Eurozone will decrease to 0.2% YoY vs. 1.2% in 2019.
- **Last week we saw business survey results for Chinese manufacturing.** The CFLP PMI rose to 51.5 pts in September vs. 51.0 pts in August. The data structure confirmed the continuation of the improvement in Chinese manufacturing. Noteworthy is an increase in the sub-indices for output and new orders to two-year highs. In addition, the sub-index for new export orders has for the first time this year exceeded the 50 pts threshold dividing expansion from contraction of activity. The improving sentiment in Chinese manufacturing was also indicated by the Caixin PMI which amounted to 53.0 pts in September vs. 53.1 pts in August. Like in the case of the CFLP PMI, noteworthy in the data structure is further sharp increase in the sub-index for new export orders significantly above the 50 pts threshold, pointing to recovery in global trade. The last week's data from China support our forecast, in which the Chinese GDP will grow by 5.8% YoY in Q3 vs. a 3.2% increase in Q2 and in Q4 it will rise to 7.9% YoY.
- **As we expected, the Standard & Poor's rating agency affirmed Poland's long-term credit rating at A- with stable outlook.** Poland's diversified economy, educated workforce, EU membership, manageable public and private debt, solid external metrics, prudent monetary policy amid the healthy banking system, and relatively deep domestic capital markets support the ratings. S&P expects that GDP will decrease by 3.4% YoY in 2020 and will increase by 4.5% YoY in 2021, by 3.6% in 2022 and by 3.1% in 2023. According to the agency's forecasts, the general government deficit as a share of GDP will amount to 9.3% in 2020, will drop to 5.1% in 2021 and will stand at 2.9% between 2022 and 2023. The public debt will

amount to 59.9% of GDP in 2020 and will then run close to 62% of GDP until 2023. However, the agency does not see any risk to the debt service in medium term, pointing to its low level, compared with other countries, and favourable structure (i.a. small participation of foreign investors). The ratings could come under pressure if the impact of the pandemic materially weakened Poland's medium-term growth prospects, also leading to the government's fiscal position deteriorating significantly beyond the agency's expectations. Ratings downside could also materialize in case of materially weaker EU transfers to Poland, for instance as a result of political tensions between Poland and EU authorities. The crystallization of fiscal contingent liabilities from emergency policy measures or the government's increasing share of the financial system could also lead to a negative rating action. In our view, the affirmation by S&P of Poland's rating and its outlook is neutral for PLN and bond yields.

Another deterioration of consumer sentiment is in front of us

In the last MACROmap we were pointing to the normalization in the labour market and to the abatement of anomalies relating to the COVID-19 pandemic. Labour market trends are important for a correct assessment of the outlook for consumption. In our view, changing consumer sentiment will be important from the point of view of private consumption and retail sales in the horizon of several months. Below we present our predictions in this respect.

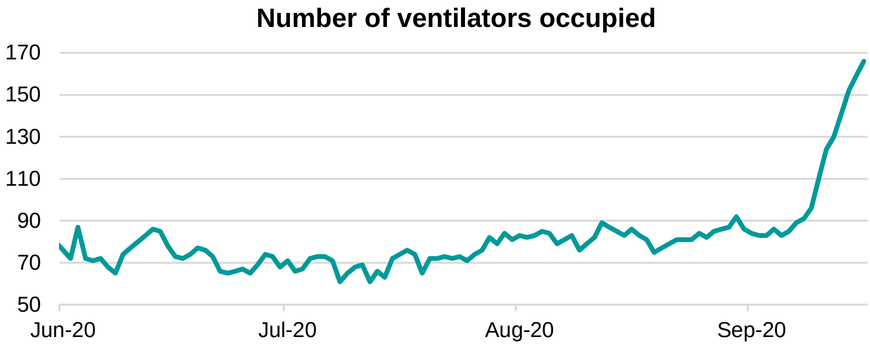
When analyzing the data on retail sales in August (see MACROpulse of 21/9/2020), it is worth noting that the postponed demand effect (increase in households' expenditures not made due to restrictions binding between March and May), boosting sales dynamics in recent months, has abated. In effect, we saw a stabilization of turnovers in retail trade. Our forecast of retail sales for September, taking into account the information on payment card transactions of our bank clients, indicates a limited scale of its further increase in year-on-year terms. Thus, we can make a hypothesis that the recovery in retail sales in Q3 resulted mainly from the end of the lockdown and that the potential for their further growth is limited.



Source: GUS, Credit Agricole

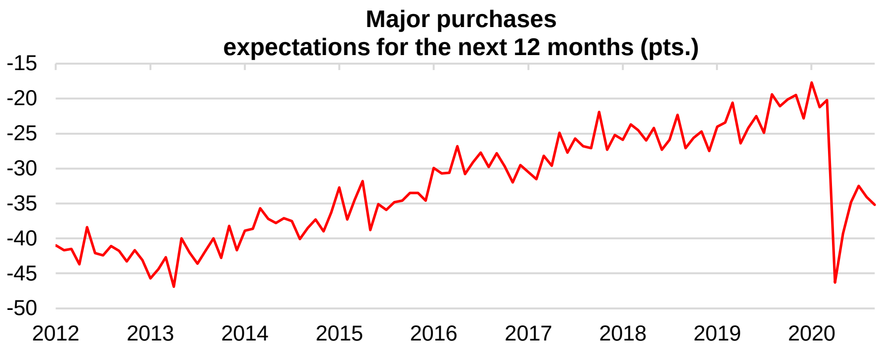
Although trading in goods forms only a part of consumption, we believe that the outlook for the whole private consumption is similar. Our assessment is supported by the results of GUS consumer surveys. One of the leading indicators for consumption growth is the change in household's anticipated financial situation in a year's time. It points to a likely increase in private consumption dynamics in Q3 2020 and in subsequent quarters. However, it is worth noting that the value of this index has not yet returned to pre-pandemic levels. We can therefore expect that the scale of the recovery in consumer spending will be limited.

Another deterioration of consumer sentiment is in front of us



Source: Ministry of Health, Credit Agricole

In our view, the main factor slowing down the improvement of sentiment and limiting households' purchases are concerns about further course of the pandemic in Poland. Recent weeks saw a sharp increase in new infections and the number of persons quarantined (see MACROpulse of 17/9/2020) as well as the increasing number of hospital beds and ventilators occupied. This view is supported by marked deterioration of consumer sentiment recorded in the September GfK Consumer Sentiment Barometer. The report pointed to fear of the second wave of infections, concerns about the scale of reimposed restrictions and the resulting general uncertainty as the main factors responsible for the deterioration of sentiment. If the tendencies concerning the spread of the epidemic do not improve in the coming weeks, we believe that the household's concerns about the capacity of the health service will significantly increase.

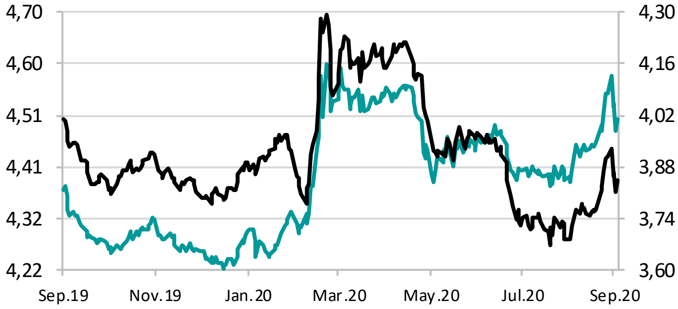


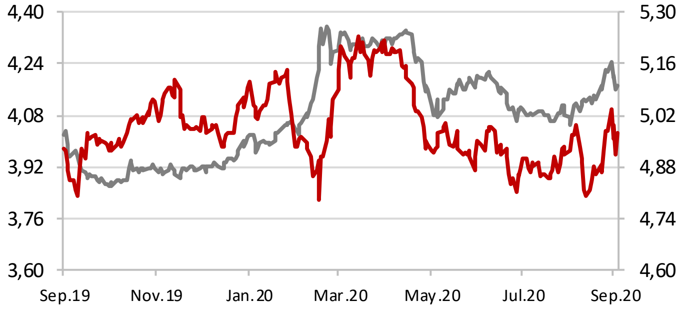
Source: GUS, Credit Agricole

Considering the tendencies outlined above, we expect that subsequent months will see a "W-shaped" profile of consumer sentiment. After a marked deterioration of sentiment during the first wave of the epidemic, it will temporarily improve, then will deteriorate again, and then we will see a subsequent increase in indicators. The beginning of the "W" shape can now be observed for the GUS index "major purchases – forecast for next year". After earlier increases, this index decreased in September and we expect this negative trend to last. We therefore believe that in the light of the deterioration in the labour market and households' concerns about the second wave of the epidemic, the potential for further increase in retail sales and consumption is limited. This supports our forecast in which consumption dynamics will amount to 0.0% YoY in Q3 and will increase only slightly to 0.5% in Q4 2020.

EURPLN at the highest level since April 2020

FX rates





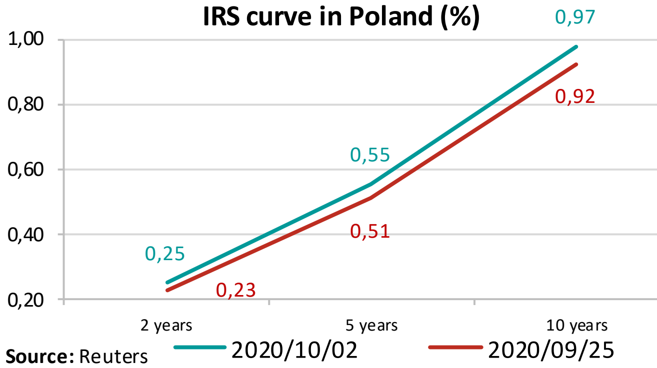
Source: Reuters

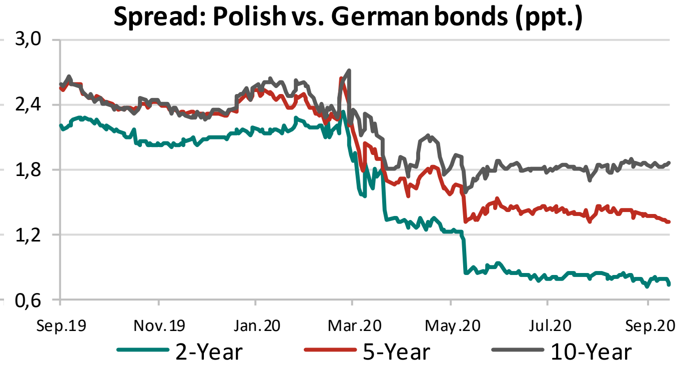
Last week, the EURPLN exchange rate dropped to 4.5026 (strengthening of PLN by 1.0%). The first part of the week saw the continuation of the weakening of PLN and of other emerging currencies observed in previous weeks due to a lower demand for risky assets resulting from no progress in the negotiations on the stimulus package in the US and investors' growing concerns about the economic consequences of the increasing number of coronavirus infections in Europe. Consequently, on Tuesday EURPLN exceeded 4.59 reaching the highest level since April 2020. However, further into the day there was a correction and EURPLN was showing a weak downward trend until the end of the week.

Last week also saw a slight appreciation of EUR vs. USD. The information about US President D. Trump having coronavirus, like data on non-farm payrolls in the US, had no substantial impact on EURUSD.

The announced last week S&P decision affirming Poland's rating and its outlook is neutral for PLN. This week, like in the previous weeks, PLN will remain impacted by global sentiment related to the negotiations concerning the stimulus package in the US, information about the course of the second wave of the coronavirus pandemic (especially in Europe) and the state of health of the US president. The MPC meeting scheduled for this week will not have any significant impact on PLN, we believe. The publication of the Minutes of the September FOMC meeting and non-manufacturing ISM in the US is also likely to be neutral for PLN.

Further development of COVID-19 pandemic in Europe crucial for IRS rates





Source: Reuters

Last week, 2-year IRS rates increased to 0.25 (up by 2bps), 5-year rates to 0.55 (up by 4bps), and 10-year rates to 0.97 (up by 5bps). Last week IRS rates were showing low volatility against the backdrop of recent weeks. Thursday saw a temporary increase in IRS rates across the curve which was of a transactional like nature.

The announced last week S&P decision affirming Poland's rating and its outlook is neutral for the curve. This week, like in the previous weeks, IRS rates will remain impacted by global sentiment related to the course of the second wave of the coronavirus pandemic in Europe. We believe that the MPC meeting scheduled for this week will be neutral for the curve. The publications of the Minutes of the September FOMC meeting and of non-manufacturing ISM in the US are also likely to be of no substantial significance to IRS rates.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Sep.19	Oct.19	Nov.19	Dec.19	Jan.20	Feb.20	Mar.20	Apr.20	May.20	Jun.20	Jul.20	Aug.20	Sep.20	Oct.20
NBP reference rate (%)	1,50	1,50	1,50	1,50	1,50	1,50	1,00	0,50	0,10	0,10	0,10	0,10	0,10	**0,10**
EURPLN*	4,37	4,26	4,31	4,26	4,30	4,33	4,55	4,54	4,44	4,44	4,41	4,40	4,53	**4,54**
USDPLN*	4,01	3,82	3,91	3,79	3,87	3,92	4,13	4,15	4,00	3,95	3,74	3,68	3,86	**3,91**
CHFPLN*	4,02	3,87	3,91	3,92	4,02	4,06	4,29	4,30	4,16	4,17	4,10	4,07	4,21	**4,20**
CPI inflation (% YoY)	2,6	2,5	2,6	3,4	4,3	4,7	4,6	3,4	2,9	3,3	3,0	2,9	**3,0**	
Core inflation (% YoY)	2,4	2,4	2,6	3,1	3,1	3,6	3,6	3,6	3,8	4,1	4,3	4,0	**3,5**	
Industrial production (% YoY)	5,5	3,7	1,5	3,8	1,1	4,8	-2,4	-24,6	-16,8	0,5	1,1	1,5	**5,3**	
PPI inflation (% YoY)	0,8	-0,3	-0,1	1,0	0,9	0,2	-0,3	-1,4	-1,7	-0,8	-0,6	-1,2	**-1,5**	
Retail sales (% YoY)	5,3	5,4	5,9	7,5	5,7	9,6	-7,0	-22,6	-8,6	-1,9	2,7	0,4	**2,0**	
Corporate sector wages (% YoY)	6,6	5,9	5,3	6,2	7,1	7,7	6,3	1,9	1,2	3,6	3,8	4,1	**4,3**	
Employment (% YoY)	2,6	2,5	2,6	2,6	1,1	1,1	0,3	-2,1	-3,2	-3,3	-2,3	-1,5	**-0,9**	
Unemployment rate* (%)	5,1	5,0	5,1	5,2	5,5	5,5	5,4	5,8	6,0	6,1	6,1	6,1	**6,2**	
Current account (M EUR)	846	535	1139	253	2263	949	1292	1156	2321	2842	1620	**1780**		
Exports (% YoY EUR)	13,0	3,9	0,8	9,1	5,0	8,9	-5,7	-29,1	-19,3	3,0	2,7	**3,7**		
Imports (% YoY EUR)	6,2	0,3	-3,5	-0,6	4,4	0,9	-3,5	-28,1	-27,4	-10,7	-3,9	**-4,8**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2019	2020	2021
Gross Domestic Product (% YoY)		2,0	-8,2	-2,0	-2,8	-0,1	5,6	4,1	5,0	4,1	-2,8	3,6
Private consumption (% YoY)		1,2	-10,9	0,0	0,5	2,1	7,1	4,3	4,5	3,9	-2,3	4,4
Gross fixed capital formation (% YoY)		0,9	-10,9	-14,5	-16,3	-5,4	5,2	6,4	8,1	7,2	-11,9	4,5
Export - constant prices (% YoY)		0,6	-14,3	-2,5	-2,0	2,0	8,0	5,3	5,4	4,7	-4,5	5,1
Import - constant prices (% YoY)		-0,2	-17,5	-4,7	-2,1	4,5	9,0	4,1	3,6	2,7	-6,1	5,1
GDP growth contributions	Private consumption (pp)	0,7	-6,3	0,0	0,2	1,3	3,9	2,5	2,3	2,2	-1,3	2,5
	Investments (pp)	0,1	-1,8	-2,6	-4,1	-0,7	0,8	1,0	1,8	1,3	-2,2	0,7
	Net exports (pp)	0,4	0,8	1,0	-0,1	-1,2	0,2	0,9	1,1	1,2	0,6	0,3
Current account (% of GDP)***		1,0	2,3	2,5	2,0	0,4	-0,1	0,0	0,6	0,4	2,0	0,6
Unemployment rate (%)**		5,4	6,1	6,2	7,5	7,3	6,1	5,5	6,1	5,2	7,5	6,1
Non-agricultural employment (% YoY)		0,7	-1,8	-2,1	-2,0	-0,9	1,5	1,8	2,0	0,3	-1,3	1,1
Wages in national economy (% YoY)		7,7	3,8	3,2	3,4	2,7	3,2	2,9	3,0	7,2	4,5	3,0
CPI Inflation (% YoY)*		4,5	3,2	3,0	3,0	1,5	2,0	1,8	1,7	2,3	3,4	1,7
Wibor 3M (%)**		1,17	0,26	0,22	0,23	0,23	0,23	0,23	0,23	1,71	0,23	0,23
NBP reference rate (%)**		1,00	0,10	0,10	0,10	0,10	0,10	0,10	0,10	1,50	0,10	0,10
EURPLN**		4,55	4,44	4,54	4,43	4,40	4,39	4,37	4,35	4,26	4,43	4,35
USDPLN**		4,13	3,95	3,88	3,75	3,70	3,69	3,64	3,63	3,79	3,75	3,63

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 10/05/2020				
10:00	Eurozone	Services PMI (pts)	Sep	47,6	47,6	47,6
10:00	Eurozone	Final Composite PMI (pts)	Sep	50,1	50,1	50,1
10:30	Eurozone	Sentix Index (pts)	Oct	-8,0		-9,5
11:00	Eurozone	Retail sales (% MoM)	Aug	-1,3		2,3
16:00	USA	ISM Non-Manufacturing Index (pts)	Sep	56,9	56,5	56,3
		Tuesday 10/06/2020				
8:00	Germany	New industrial orders (% MoM)	Aug	2,8		2,5
		Wednesday 10/07/2020				
8:00	Germany	Industrial production (% MoM)	Aug	1,2		1,5
20:00	USA	FOMC Minutes	Sep			
	Poland	**NBP rate decision (%)**	**Oct**	**0,10**	**0,10**	**0,10**
		Thursday 10/08/2020				
8:00	Germany	Trade balance (bn EUR)	Aug	18,0		17,9
14:30	USA	Initial jobless claims (k)	w/e	837		823
		Friday 10/09/2020				
16:00	USA	Wholesale inventories (% MoM)	Aug	0,5		0,5
16:00	USA	Wholesale sales (% MoM)	Aug	4,6		

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

** Reuters

Jakub BOROWSKI
Chief Economist
tel.: 22 573 18 40

jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Senior Economist
tel.: 22 573 18 41

krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Economist
tel.: 22 573 18 42

jakub.olipra@credit-agricole.pl